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August 15, 2011

**AGENDA ITEM 4**

**TO: MEMBERS OF THE INVESTMENT POLICY SUBCOMMITTEE**

- I. SUBJECT:** Revision of Global Principles of Accountable Corporate Governance
- II. PROGRAM:** Global Equity
- III. RECOMMENDATION:** Recommend to the Investment Committee approval of the revisions of the CalPERS Global Principles of Accountable Corporate Governance
- IV. ANALYSIS:**

**Executive Summary**

The Global Principles of Accountable Corporate Governance (Global Principles) create the framework by which CalPERS executes its proxy voting responsibilities. The principles provide a foundation for supporting CalPERS corporate engagements and governance initiatives to achieve long-term sustainable risk adjusted investment returns.

Staff recommends approval of the revisions to the CalPERS Global Principles of Accountable Corporate Governance to include new and updated sections on Board Talent Assessment and Diversity, Executive Compensation, Integrity of Financial Reporting, Risk Oversight, and Corporate Political Contributions.

Attachment 1 – The Global Principles of Accountable Corporate Governance

Attachment 2 – Wilshire Associates opinion letter

**Background**

To define the scope of the Global Equity Corporate Governance Program, the Board has adopted the Global Principles. The underlying tenet for the Global Principles is that fully accountable governance structures produce, over the long-term, the best returns to shareowners.

### **Amendments to CalPERS Principles**

Below is a summary of staff's recommended amendments to the Global Principles document:

- Board Talent Assessment and Diversity – support corporate governance efforts with boards on director succession planning and broadening the director pool of talent to ensure access to the skills and experience needed to fulfill a company's strategy.
- Executive Compensation – support CalPERS corporate engagements, “say on pay” voting which was introduced via Dodd-Frank; links compensation to business strategy, long-term performance, inclusion of risk hurdles, and disclosure of relevant ESG targets.
- Integrity of Financial Reporting – support integrated reporting, convergence, the auditor's role, and enhanced reporting to investors, including environmental and social factors; recommendations based on corporate engagements.
- Risk Oversight – support existing and future governance activities. Hold boards accountable on matters related to the management of risk; recommendations developed from Financial Sector engagement activities.
- Charitable and Political Contributions – new principle added to the Corporate Responsibility section; supports board oversight, accountability, and transparency in corporate political spending and reporting.

### **Next Steps**

- Translate the Global Principles to Chinese, French, Japanese, German, Spanish and Portuguese.
- Staff will update CalPERS Global Principles and make accessible on the CalPERS website upon approval by the Investment Committee.

## **V. STRATEGIC PLAN:**

This item supports Goal VIII to manage the risks and volatility of assets and liabilities to ensure sufficient funds are available, first to pay benefits and, second to minimize and stabilize contributions.

**VI. RESULTS/COSTS:**

Costs associated with this item are expected to be absorbed within the Investment Office budget.

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